

## POVERTY AND THE POLITICS OF CAPITALISM

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1 Here's a way to think about poverty.<sup>1</sup> People who live in poverty do so because they have few opportunities to pull themselves up by their bootstraps. In fact the gap between rich and poor has increased in recent times due to the more wholesale adoption of capitalist practices around the world. The institutions of business and government conspire to give the poor a Hobson's choice of minimal wage McJobs or unemployment. Neglect of both urban ghettos and the rural poor has been systematic, if not conscious. The very idea of capitalism reinforces the notion that some are meant to be poor and some are meant to be rich. Such a system must be overridden at times by government to help the poor cope with their lot. The only solution is a massive redistribution of income and a system of capitalism that is severely restrained. All of this is at best highly unlikely. Even if there were such a redistribution policy we could not count on *government* to execute it fairly.

2. Here's another way to think about poverty. Terrible as it is, those in poverty have a way out: the market system. If they are willing to work hard, albeit sometimes for low wages, and be imaginative, they can use the wonderful power of capitalism to capitalize on the fruits of their labor. So many are in poverty largely because of *government*. Governments constrain the efficient allocation of goods and services provided by capitalism, by artificially creating prices for labor and goods such as agricultural products, that hurts the poor. There are not as many jobs as there should be, and prices of key commodities such as food are too high. Government has hurt the poor even more by creating a safety net on which they have come to rely. The "welfare culture" prevents the poor from bootstrapping their way out of poverty to the middle class. The only solution is to get government out of the picture and to let markets work.

3. Neither of these scenarios, which represent the current discourse about poverty, government and capitalism, is very interesting. They rest on shopworn, useless metaphors about business and government, and they obviously stereotype those who live in poverty. Yet the discourse is louder today than in recent times, and the volume is related to the severity of the problem: the problem that we have an outmoded story about ourselves, one that we desperately need to drop.

4. The old worn-out story goes like this. Business is fundamentally about economics and competition. Think of business as a battlefield on which the lonely corporate warriors keep a constant vigilance against the onslaught of competition. Recently, this battlefield has moved beyond geopolitical borders and is global in nature. War is hell and so is business. The drive to compete must be strong if one is to enjoy the sweet nectar of corporate success. If everyone acts in their own self-interest solely, then a better world will be created as if by magic (or an invisible

hand). Being selfish is a virtue in business, and looking out for one's own interest is mandatory. In short, business is populated by a bunch of greedy little bastards out to do each other in before it is done to them. Call this story "Cowboy Capitalism".

5. That the story of Cowboy Capitalism is a living presence in our culture is undeniable. Daily we are treated to claims of companies and governments working on being more competitive. The academic literature of business schools is replete with war-like language and imagery. Under the current doublespeak of reengineering and restructuring, companies are laying off thousands of once loyal employees so that they can "compete in the new global arena".

6. That the story of Cowboy Capitalism is indeed shopworn is more controversial. Those on the left certainly see it as shopworn because they presume capitalism to be immoral from the start. For those on the right it is subtler. On the one hand they want business to be a celebration of the human spirit, but on the other they want to escape the moral consequences of business. The language of capitalism doesn't clearly admit to moral discourse, and this makes capitalism as bothersome to the right who want to presume it to be right as it is to the left who want to presume it to be wrong.<sup>2</sup>

7. In *Race Matters* Cornell West has suggested that the dichotomy of left and right is bankrupt when it is applied to the intersections of the problems of racism and poverty.<sup>3</sup> Liberals assume that the causes are structural in nature and that the solution is better structures, while conservatives assume that the problem is internal to the character of poor people with the only hope to be better people. While West believes that we certainly need better structures and that we need more people to bootstrap their way out of poverty, he identifies a different alternative for our discourse. Because he sees poverty and hopelessness as intimately connected he calls for a politics of conversion within a prophetic framework to restore hope and to offer the possibility of creating some meaningful future. A politics of conversion offers hope that people can struggle together to find meaning, and a prophetic framework builds in moral assessment from the beginning. Now West is proposing such a framework as necessary to address the African American experience in the United States, but I want to suggest that it has a broader application. (I want to do this without minimizing the differences between the problems of racism and poverty, and certainly without suggesting that the African American experience is solely or even essentially defined by poverty.) It is ironic that West sees no role for capitalism in this prophetic framework, for I want to suggest that if we can retell the story of capitalism in a particular way we can see how the prophetic framework can gain even more power and applicability.

8. Imagine a world in which workers routinely vote on big decisions that a company faces, such as where to locate a factory. In this world employees set their own salaries, have no time clocks or expense reports, and there is little hierarchy. Factories in this world contain employees and independent entrepreneurs (some of whom used to be employees) all working beside each other. Indeed, the CEO of the business simply does not know how many people work there and is unsympathetic

to those who want to know. Routinely the borderlines between company and customer, company and supplier, even company and competitor are crossed. Imagine that when the workers go on strike (there are still unions in this world) they use the company cafeteria to plan strategy. The company does not cut off their benefits during the strike, which is over rather quickly. Welcome to SEMCO, a Brazilian firm that has carved a successful business by applying the principles of democracy, profit sharing, and information openness.<sup>4</sup>

9. Imagine a world in which workers do all of the hiring and firing of employees. Workers constantly meet in teams to set production schedules, plan new business opportunities, and do quality control. If consumers have a problem, workers responsible for the problem personally contact the consumer. Workers share in the profits in this world, and they have salaries tied to their own improving skills and knowledge. Workers go to classes to learn about topics from budgeting to international economics. There aren't any supervisors in this world. The workers do it themselves. There are a few "coaches" who see their job as helping the workers. Welcome to Johnsonville Sausage, a Wisconsin firm that has applied many of the same principles as SEMCO.

10. Imagine a world where there are no layoffs. In this world there is a corporate university at which people are required to spend at least 2-3 weeks per year. If someone's skills become obsolete they are simply offered retraining. This large corporation regularly reinvents itself every few years. Its quality of products is among the highest in the world, and it is known for its attention to quality. Such an emphasis started after some lone soul stood up at a large meeting and was extremely critical of the corporation and its products. Rather than being executed, this manager became a hero. Welcome to Motorola, a global leader in cellular telephones and other high tech businesses.

11. What these examples have in common is that they point the way to a new story about capitalism. The new story goes like this. Corporations are places where stakeholders pursue their joint interests. Stakeholders are simply groups like suppliers, customers, employees, financiers, and communities. The interests of these groups are joint. One thrives when all thrive, and when the interests of one group are systematically discounted over time, all suffer. In a relatively free political system, these discounted groups seek political remedies to the discounting of their interests. Such remedies are often ineffective and expensive to all. Corporations are governed by their stakeholders, and while there may be many different governance schemes, depending partially on circumstances, each scheme must pay attention to the interests of each party and to their joint concerns. Directors of corporations have a duty of care to stakeholders, and managers are the agents of multiple principals. Call this story, "Stakeholder Capitalism" or "Managing for Stakeholders".

12. There is a lot more to be said about this story.<sup>5</sup> Suffice it here to say that Stakeholder Capitalism envisions a world where business and ethics are inextricably intertwined, where values and virtues are a part of corporate life, and where

hopelessness and despair are replaced by a solidarity that comes from the joint achievement of shared aims. Stakeholder Capitalism seeks to transform the old story of “anything goes” capitalism into a prophetic framework.

13. While some may suggest that Stakeholder Capitalism is hopeless idealism, I want to insist that such a viewpoint is mired in the old story about business. For every story of corporate greed that reaffirms the old story, we are increasingly finding people enacting the new one: Entrepreneurs, executives and employees who have stopped listening to the whispers in their ear that business and social life are separate.<sup>6</sup> If you have doubts read about the Social Venture Network, Businesses for Social Responsibility, the GEMI Initiative, the Business Enterprise Trust, and countless others.

14. Some will say that there is no new story, that the companies like the Body Shop and Ben and Jerry’s are just using ethics as a marketing tool, that all of this is just “wink, wink, nudge, nudge, I say, I say” in the spoofing tradition of Monty Python. Rake in the profits and laugh all the way to the bank. But, business is not hagiography. This is not a contest between saints and sinners, no matter what journalists say. The new story is about possibility; it is about attempting to redescribe our institutions and ourselves so that we can live better. Such redescrptions cannot “escape” the past or be outside of space and time and culture. The fact that the Body Shop may sometimes go too far in the interests of financiers does not negate the fact that all Body Shop employees are required and paid to do community service. It says only that we are trying to enact this new story in a far from perfect world with far from perfect creatures: human beings.

15. Some will say that Stakeholder Capitalism can never be realized under the current law of the land. And, surely this is right in those cases where the law prevents directors and managers from acting in stakeholder interests. Surely the law needs to be changed. But, if we look hard enough we will find companies managing for stakeholders in spite of the law-not as acts of civil disobedience, but because the old story enacted in law is irrelevant.

16. The new story of Stakeholder Capitalism is less about law and economic theory, and more about what we need to expect from the institution of business. If we come to expect that companies raise the level of the least well off, or that they act out of respect for the earth, or that they manage the web of relationships in which they are enmeshed, then we are most of the way towards realizing the new story. Both the law and theory will follow shortly. If the only possibility is to expect Cowboy Capitalism, then we had better get used to the rather tiresome laments of the left, and the grating rasp of the right, locked in a conversation that goes nowhere.

17. The problematic of poverty is complex. But, we cannot make progress with a political philosophy that either ignores the real institution of business, or makes 19th Century assumptions about it, or more cruelly still, simply accepts the oppressive story that has been told as the one that is necessarily so. Such a new political philosophy must take Johnsonville Sausage, Motorola, Merck and others into account, not as exceptional acts of altruism, but as part of the everyday mosaic of business, as pointing us to what it is possible for humans to accomplish.

## Endnotes

<sup>1</sup> The style is shamelessly borrowed from Richard Rorty's essay "Philosophy as a Kind of Writing," in *Consequences of Pragmatism* (Minneapolis, MN: University of Minnesota Press, 1982).

<sup>2</sup> I have tried to give a more careful analysis of this phenomenon of the role of ethics in capitalism in "The Politics of Stakeholder Theory: Some Future Directions," *Business Ethics Quarterly*, Volume 4 Number 4, pp. 409-421.

<sup>3</sup> Cornell West, *Race Matters* (Boston, MA: Beacon Press, 1993).

<sup>4</sup> For more information on SEMCO see Ricardo Semler, "Managing Without Managers," *Harvard Business Review*, Volume 89, Number 5, 1989, pp. 76-84; and, Ricardo Semler, "Why My Former Employees Still Work for Me," *Harvard Business Review*, Volume 94, Number 1, 1994, pp. 61-72. For a version of these principles as applied in the United States see "Jack Stack (A) and (B)" a case study published by the Business Enterprise Trust, available from Harvard Business School.

<sup>5</sup> I have tried to work out pieces of this new story in a number of places. See R. Edward Freeman and Daniel R. Gilbert, Jr., *Corporate Strategy and the Search for Ethics* (Prentice Hall, 1988); Freeman and Jeanne Liedtka, "Stakeholder Capitalism and the Value Chain," *European Management Journal*, (1997), Vol 15, No. 3, 286-296; Freeman, "The Politics of Stakeholder Theory," *Business Ethics Quarterly*, (1996) Vol. 4 No. 4; and Freeman, "Understanding Stakeholder Capitalism," *Financial Times*, July 26, 1996.

<sup>6</sup> I have tried to understand some of the complexities here in an essay, "The Business Sucks Story," *The Darden School Working Papers*, University of Virginia, Charlottesville, VA.